

**TESTIMONY OF THE INSPECTOR GENERAL,
CHARLES C. MADDOX, ESQ.
BEFORE THE D. C. COUNCIL
COMMITTEE ON GOVERNMENT OPERATIONS
FISCAL YEAR 2004 BUDGET REVIEW**

APRIL 7, 2003

CHAIRPERSON ORANGE AND MEMBERS OF THE COMMITTEE: I AM PLEASED TO TESTIFY BEFORE THIS COMMITTEE TODAY CONCERNING THE PROPOSED FISCAL YEAR (FY) 2004 BUDGET FOR THE OFFICE OF THE INSPECTOR GENERAL (OIG). SEATED WITH ME ARE BILL DIVELLO, THE ASSISTANT IG FOR AUDITS; BOB ANDARY, ASSISTANT IG FOR INVESTIGATIONS; AL WRIGHT, ASSISTANT IG FOR INSPECTIONS AND EVALUATIONS; AND SID ROCKE, DIRECTOR OF THE MEDICAID FRAUD CONTROL UNIT (MFCU).

FY 2004 BUDGET - BACKGROUND

DURING THE FY 2003 BUDGET PROCESS WE REQUESTED \$12.5 MILLION, AND THE MAYOR FORWARDED TO THE COUNCIL A BUDGET IN THE AMOUNT OF \$12.1 MILLION, A REDUCTION OF \$435,586. IN ADDITION, DURING THE FY 2003 BUDGET CYCLE, OUR APPROVED BASELINE BUDGET WAS REDUCED BY AN ADDITIONAL \$628,000 TO HELP SUPPORT THE CITY-WIDE REVENUE SHORTFALLS. ACCORDINGLY, I SUBMITTED AN ESTIMATE OF THE FUNDS NECESSARY FOR THE OPERATION OF THE OIG FOR FY 2004 TO THE MAYOR IN THE AMOUNT OF \$11.6 MILLION. HOWEVER, BASED ON REQUESTS FROM THE OFFICE OF THE MAYOR, WE AGREED TO PARTICIPATE IN COST SAVINGS INITIATIVES. ACCORDINGLY, THE OIG BUDGET PROPOSED BY THE MAYOR'S OFFICE AND FORWARDED TO THE COUNCIL TOTALED \$11.3 MILLION, THAT IS, A NET REDUCTION OF \$318,100 FROM MY ORIGINAL BUDGET SUBMISSION. TOGETHER, THESE REDUCTIONS REPRESENT A DECREASE OF ABOUT 11% FROM OUR BUDGET REQUEST FOR THE FY 03 BUDGET.

APPROXIMATELY \$8.2 MILLION OF THE \$11.3 MILLION FY 2004 BUDGET WILL BE ALLOCATED FOR PERSONAL SERVICES AND \$3.1 MILLION FOR NON-PERSONAL SERVICES.

EFFECT OF BUDGET CUTS

FOR THE FY 2003 BUDGET CYCLE, WE HAVE POSTPONED OUR BUDGET ENHANCEMENT REQUEST FOR THREE ADDITIONAL FTEs. ADDITIONALLY, BECAUSE OF CUTS SUSTAINED DURING THE CYCLE, WE HAVE NOT BEEN ABLE TO FUND AT LEAST THREE POSITIONS, AND THE CURRENT HIRING FREEZE HAS DELAYED HIRING FOR ADDITIONAL VACANT POSITIONS. THESE IMPEDIMENTS WILL HAVE AN IMPACT ON OUR ABILITY TO ACHIEVE OUR MANDATED MISSION AND WILL DIRECTLY AFFECT THE NUMBER AND TIMELINESS OF OUR PROJECTS. ANY FURTHER REDUCTION TO OUR BUDGET WOULD IMPEDE OUR ABILITY TO ADDRESS FUNCTIONS AND RESPONSIBILITIES THAT ARE REQUIRED BY LAW.

OUR MISSION-BASED BUDGET RECOGNIZES THE NEED TO ACQUIRE, TRAIN, AND MAINTAIN A COMPETENT PROFESSIONAL STAFF AND TO HIRE AN EXTERNAL CERTIFIED PUBLIC ACCOUNTING FIRM TO OPINE ON THE DISTRICT'S ANNUAL FINANCIAL STATEMENTS. CUTS WOULD IMPAIR THE ABILITY OF THE OIG TO MEET THESE NEEDS AND THUS HAVE LONG-TERM EFFECTS ON MISSION ACCOMPLISHMENT. FOR EXAMPLE, THE OIG HAS IDENTIFIED MONETARY BENEFITS FAR IN EXCESS OF OVERALL OIG COSTS. THE ABILITY TO IDENTIFY SUCH BENEFITS WOULD BE IMPAIRED. ALSO IMPAIRED, WOULD BE THE OIG'S ABILITY TO IDENTIFY OTHER EFFICIENCIES AND NON-MONETARY BENEFITS TO DISTRICT STAKEHOLDERS.

IF FUNDING WERE INSUFFICIENT TO FILL VACANCIES, THEN THE PIPELINE OF TRAINED STAFF WOULD SUFFER. LIKEWISE, LACK OF FUNDING FOR TRAINING REQUIRED TO MEET COMPETENCY STANDARDS IMPOSED BY LAW FOR CERTAIN

OIG PERSONNEL WOULD PRECLUDE USING THEM FOR THE PURPOSES FOR WHICH THEY WERE HIRED. INDEED, THE OIG HAS LIMITED TRAINING IN CALENDAR YEAR 2003 TO MANDATORY MINIMUM REQUIREMENTS. BECAUSE TRAINING WAS LIMITED, THE OIG WILL BE REQUIRED TO OBTAIN IN 2004 NEARLY 3 TIMES THE TRAINING IT RECEIVED IN THE PRIOR YEAR IN ORDER TO MEET CONTINUING EDUCATIONAL REQUIREMENTS FOR THE 2-YEAR PERIOD ENDING ON DECEMBER 31, 2004.

SPECIFICALLY, CUTS WILL:

- REDUCE OUR FIRST LINE REVIEW FUNCTION TO IDENTIFY FRAUD, WASTE AND MISMANAGEMENT.
- DECREASE OUR POTENTIAL AS AN INSTRUMENT FOR IDENTIFYING POTENTIAL MONETARY BENEFITS.
- REDUCE OUR ABILITY TO IDENTIFY, IN A PROACTIVE MANNER, SIGNIFICANT AREAS OR ISSUES FOR MORE IN-DEPTH REVIEW.
- DECREASE OUR ABILITY TO RESPOND TO THE COUNCIL, THE MAYOR, DISTRICT AGENCY HEADS, AND OTHER STAKEHOLDERS.
- DECREASE DISCRETIONARY AUDITS TO ACCOMPLISH MANDATED AUDITS. HOWEVER, DISCRETIONARY AUDITS ARE THOSE WHICH HISTORICALLY HAVE IDENTIFIED SIGNIFICANT MONETARY BENEFITS TO DISTRICT STAKEHOLDERS.
- EXACERBATE THE CONTINUING PROBLEM OF ACCOMPLISHING BOTH PLANNED WORK AND EMERGING WORK REQUESTED BY DISTRICT EXECUTIVES, COUNCILMEMBERS, AND STAKEHOLDERS.

THE NON-DISCRETIONARY BUDGET

IT IS IMPORTANT TO NOTE THAT OF THE GROSS BUDGET OF \$11.3 MILLION, APPROXIMATELY \$1.3 MILLION IS PROVIDED BY A FEDERAL GRANT FROM THE DEPARTMENT OF HEALTH AND HUMAN SERVICES TO FUND 75 PERCENT OF THE

OPERATING COSTS OF THE MFCU. ADDITIONALLY, A SIGNIFICANT PORTION OF THE LOCAL BUDGET FOR FY 2004 – 25 PERCENT – IS ALLOCATED FOR NON-DISCRETIONARY PURPOSES - THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR), WHICH IS CONTRACTED OUT TO KPMG, AND FIXED COSTS, SUCH AS RENT.

FUNCTIONS REQUIRED BY LAW

IN ESSENCE, THE TOTAL LOCAL EXPENDITURES ASSOCIATED WITH THE DAILY OPERATIONS OF THE OIG IS \$7.5 MILLION OF THE PROPOSED \$11.3 MILLION. FROM THIS REMAINING \$7.5 MILLION, A SIGNIFICANT PORTION MUST BE EXPENDED ON AUDITS AND OTHER RESPONSIBILITIES THAT ARE REQUIRED BY LAW, SUCH AS AUDITS OF THE HIGHWAY TRUST FUND, PROCUREMENT AND CONTRACT ADMINISTRATION, THE HOME PURCHASE ASSISTANCE FUND, THE HIGHWAYTRUST FUND 5-YEAR FORECAST, THE WASHINGTON METROPOLITAN AREA TRANSIT COMMISSION, THE ANTIFRAUD FUND OF THE CORPORATION COUNSEL, AND THE PROFESSIONAL ENGINEERS FUND. ALSO MANDATED BY STATUTE ARE THE REVIEW AND ANALYSIS OF ALL CANCELLATIONS OF CONTRACTS AND SOLICITATIONS AND THE DAILY MAINTENANCE OF THE OIG'S COMPLAINT HOTLINE. FINALLY, ALLEGATIONS OF CRIMINAL CONDUCT BY DISTRICT EMPLOYEES, ONCE REFERRED TO THE U.S. ATTORNEYS OFFICE, MUST REMAIN UNDER INVESTIGATION UNTIL THAT OFFICE DECIDES TO DECLINE OR PROSECUTE.

ACCOMPLISHMENTS

A BRIEF OVERVIEW OF THE ACCOMPLISHMENTS OF THE OIG'S FOUR DIVISIONS WILL SHOW THAT FUNDS DEDICATED TO THE OIG RESULTED IN SAVINGS TO THE DISTRICT THAT WOULD BE DIMINISHED BY FURTHER CUTS TO OUR BUDGET.

AUDIT DIVISION

THE OIG BUDGET REQUEST COMES WITH A STRONG RECORD OF ACCOMPLISHMENTS. FOR EXAMPLE, IN THE AUDIT DIVISION, WE NOT ONLY EXCEEDED OUR PERFORMANCE GOALS, BUT ALSO MADE SIGNIFICANT IMPROVEMENTS TO OUR QUALITY CONTROL FUNCTION AND MANAGEMENT INFORMATION SYSTEM. THE RESULTS OF THESE ENHANCEMENTS CONTRIBUTED SIGNIFICANTLY TO THIS DIVISION PASSING ITS FIRST PEER REVIEW, AND ALSO HELPED TO REDUCE TIMELINES AND RELATED COSTS FOR AUDITS PERFORMED.

FOR FY 2002 WE ISSUED 36 AUDIT REPORTS COVERING 24 DISTRICT AGENCIES. FROM THESE AUDITS, WE ACHIEVED OVER \$40 MILLION IN POTENTIAL MONETARY BENEFITS. COMPARING THESE BENEFITS TO AUDIT DIVISION COSTS OF APPROXIMATELY \$2.8 MILLION, THE RETURN ON INVESTMENT FOR AUDITS PERFORMED BY OUR STAFF HAS BEEN APPROXIMATELY \$14 FOR EACH DOLLAR INVESTED.

WE CONTRACTED WITH THE ACCOUNTING FIRM OF KPMG, LLP, TO PERFORM THE DISTRICT'S ANNUAL FINANCIAL STATEMENT AUDIT, WHICH INCLUDES STAND ALONE AUDITS FOR VARIOUS COMPONENT UNITS/INDEPENDENT AGENCIES. WE HAVE INCLUDED APPROXIMATELY \$2 MILLION IN OUR FY 2003 BUDGET TO COVER THE COST OF PERFORMING THIS AUDIT. TO OVERSEE THE CAFR, THE OIG ESTABLISHED THE CAFR OVERSIGHT COMMITTEE TO MONITOR THE PROGRESS OF THE AUDIT, TO ADDRESS ANY ISSUES THAT MAY ARISE FROM THE AUDIT OR MAY PREVENT THE AUDIT FROM BEING COMPLETED ON TIME, AND TO ENSURE THAT ALL OF THE CONTRACT TERMS ARE ADHERED TO. AS THIS CONTRACT REPRESENTS A SIGNIFICANT PORTION OF OUR BUDGET, WE MUST ALLOCATE A SUBSTANTIAL AMOUNT OF RESOURCES TO COMMITTEE ACTIVITIES.

IN MARCH OF THIS YEAR, WE RECEIVED REQUESTS FROM KPMG TO MODIFY THE ORIGINAL CAFR CONTRACT. THE MODIFICATION IS NECESSARY TO COVER COSTS OF APPROXIMATELY \$436,000 TO PERFORM ADDITIONAL WORK IN FY 2004 OUTSIDE THE ORIGINAL SCOPE OF THE CAFR. THE FOLLOWING IS A SUMMARY OF THE PROPOSED ADDITIONS TO THE SCOPE OF WORK:

- THE IMPLEMENTATION OF THE DCPS PEOPLESOFT PAYROLL SYSTEM - \$162,000;
- REPORTING REQUIREMENTS RELATED TO GASB 34, GASB 39, AND SAS 99 - \$266,000; AND
- REVIEW OF STAND-ALONE-AUDIT REPORT FOR THE DISTRICT OF COLUMBIA COLLEGE SAVINGS PLAN - \$8,000.

WE BELIEVE ADDITIONAL WORK IS NECESSARY IN ORDER FOR THE CONTRACTOR TO AUDIT THE DISTRICT'S RECORDS, ENSURE COMPLIANCE WITH REPORTING REQUIREMENTS, AND EXPRESS AN OPINION ON OUR FINANCIAL STATEMENTS RELATED TO THESE ITEMS. WE, AS OVERSIGHT AUTHORITY, ARE REVIEWING THE REQUESTS FOR MODIFICATION TO DETERMINE THE EXTENT OF WORK WHICH NEEDS TO BE PERFORMED AND THE COST ASSOCIATED WITH THIS WORK.

UNFORTUNATELY, RECENT CUTS FROM NON-PERSONAL SERVICES FUNDS HAVE FURTHER COMPLICATED OUR ABILITY TO PAY FOR THE RISING COSTS ASSOCIATED WITH THE CAFR MODIFICATIONS. THIS MONEY MUST NOW COME FROM OTHER SOURCES, SUCH AS CHARGEBACKS TO CUSTOMER AGENCIES.

INVESTIGATIONS DIVISION

IN THE LAST FISCAL YEAR OUR INVESTIGATIONS RESULTED IN 27 CASES ACCEPTED FOR PROSECUTION BY THE OFFICE OF THE UNITED STATES ATTORNEY. OUR CASES RESULTED IN 18 INDICTMENTS AND 16 CRIMINAL

CONVICTIONS DURING THE FISCAL YEAR, AS WELL AS OVER \$700,000 IN RESTITUTION AND RECOVERIES, AND OVER \$200,000 IN ASSET SEIZURES. OUR INVESTIGATIONS DIVISION BEGAN THE FISCAL YEAR WITH 273 PENDING INVESTIGATIONS, AND DURING THE FISCAL YEAR RECEIVED 451 NEW INVESTIGATIVE MATTERS. FROM THESE, 162 FORMAL INVESTIGATIONS WERE OPENED, 25 REPORTS OF INVESTIGATION WERE ISSUED, AND 143 MATTERS WERE REFERRED TO AGENCY HEADS FOR ACTION. PRESENTLY, THERE ARE 207 OPEN INVESTIGATIONS IN THE INVESTIGATIONS DIVISION, FOR AN AVERAGE CASE LOAD OF 11 OPEN CASES FOR EACH CRIMINAL INVESTIGATOR.

INSPECTIONS & EVALUATIONS DIVISION

DURING FISCAL YEAR 2002, THE INSPECTIONS AND EVALUATIONS DIVISION (I&E) COMPLETED AN INSPECTION OF A COMPONENT WITHIN ONE OF THE DISTRICT'S MOST VITAL AGENCIES - THE PARKING SERVICES ADMINISTRATION IN THE DEPARTMENT OF PUBLIC WORKS. WE ALSO BEGAN A COMPREHENSIVE, LONG-TERM INSPECTION OF SIX OF THE SEVEN ADMINISTRATIONS IN THE DEPARTMENT OF HEALTH. SINCE ITS INCEPTION, THIS SMALL STAFF OF MANAGEMENT ANALYSTS HAS PRODUCED SIGNIFICANT FINDINGS AND RECOMMENDATIONS REGARDING EFFICIENCY AND EFFECTIVENESS WITHIN KEY CITY AGENCIES AT COSTS SIGNIFICANTLY LESS THAN FEES CHARGED BY PRIVATE CONTRACTORS. THE COST TO THE DISTRICT TO PERFORM AN OIG INSPECTION AND EVALUATION IS ABOUT ONE-THIRD THAT CHARGED BY CONTRACTORS AND CONSULTANTS FOR COMPARABLE WORK. OUR INSPECTIONS FOCUS ON AREAS, OFTEN SUGGESTED TO US BY AGENCY HEADS, THAT WILL HAVE THE GREATEST IMPACT ON AGENCY OPERATIONS AND THE HIGHEST RETURN ON OUR INVESTMENT OF RESOURCES. THEY ARE A COST-EFFECTIVE METHOD FOR CITY AGENCIES TO ASSESS THEIR STRENGTHS AND WEAKNESSES AND THE EFFECTIVENESS OF INTERNAL CONTROLS, AND TO MAKE ADJUSTMENTS THAT WILL IMPROVE CRUCIAL OPERATIONS.

MEDICAID FRAUD CONTROL UNIT

IN FY 2002 THE MFCU OBTAINED ITS FIRST FRAUD CONVICTION OF A MEDICAID PROVIDER AND RECOVERED OVER \$360,000 IN MEDICAID FUNDS FROM A NUMBER OF CASES. THE UNIT IS CURRENTLY WORKING ON OVER 40 FRAUD CASES. FURTHERMORE, WE RECOVERED OVER \$108,000 IN THE FIRST PART OF THIS YEAR. WE HAVE ALSO RECEIVED SETTLEMENT OFFERS THAT GREATLY EXCEED THE MFCU ANNUAL BUDGET AND WE EXPECT TO FINALIZE THESE MATTERS IN THE NEXT SEVERAL WEEKS. IN THE AREA OF PATIENT ABUSE, THE UNIT ADDRESSED 816 UNUSUAL INCIDENTS OCCURRING IN NURSING HOMES OR GROUP HOMES FOR PERSONS WHO ARE MENTALLY RETARDED, DEVELOPMENTALLY DISABLED, OR MENTALLY ILL. FURTHERMORE, THE MFCU OBTAINED THREE CRIMINAL ABUSE CONVICTIONS IN FY2002, INCLUDING A MANSLAUGHTER CONVICTION BASED ON THE RECKLESS CARE OF A NURSING HOME PATIENT. I AM CONFIDENT THAT THE MFCU WILL PROVIDE STILL GREATER ACCOMPLISHMENTS IN THE FUTURE AS IT FULFILLS ITS DUAL GOALS OF RETURNING STOLEN FUNDS TO THE DISTRICT'S MEDICAID PROGRAM AND PROTECTING SOME OF THE OUR MOST VULNERABLE FELLOW CITIZENS.

I AM MINDFUL OF THE BUDGET SHORTFALLS FACED BY THE DISTRICT IN FY 2002 AND FY 2003, AND THE NEED TO BE FISCALLY RESPONSIBLE IN FY 2004. I BELIEVE THAT THE CUTS AND CONCESSIONS MADE BY THE OIG SUPPORT MY COMMITMENT TO THE MAYOR'S GOALS OF REDUCING THE BUDGET AND IMPROVING OPERATIONAL EFFICIENCY WITHIN ALL DISTRICT AGENCIES.

I AM CONFIDENT THAT ALL DISTRICT STAKEHOLDERS WILL RECOGNIZE OUR HISTORY OF STRONG PERFORMANCE AND THE SIGNIFICANT RETURN ON INVESTMENTS BY OUR AUDITS, INVESTIGATIONS, AND INSPECTIONS BY FAVORABLY RECOMMENDING ADOPTION OF THE PROPOSED BUDGET. THROUGH OUR COLLECTIVE EFFORTS, WE WILL CONTINUE TO IDENTIFY POTENTIAL MONETARY BENEFITS, WHICH CAN BE REALIZED BY THE DISTRICT.

WE WILL WORK AGGRESSIVELY TO FERRET OUT FRAUD, WASTE, AND ABUSE IN CRITICAL GOVERNMENT OPERATIONS AND DO OUR BEST TO IMPROVE THE EFFECTIVENESS AND EFFICIENCY OF GOVERNMENT OPERATIONS TO OPTIMIZE DELIVERY OF SERVICES TO OUR CITIZENS.

AT THIS TIME, I WILL ANSWER ANY QUESTIONS CONCERNING OUR BUDGET.